

Message Text

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ORIGIN EB-08

INFO OCT-01 AF-10 ISO-00 TRSE-00 AID-05 /024 R

DRAFTED BY EB/IFD/ODF:FVNASH:DA
APPROVED BY EB/IFD/ODF:EWLOLLIS, ACTING
AF/W:BKIRKPATRICK (SUBS.)
TREASURY:ABOWSER (DRAFT)

-----043362 020157Z /66

P R 012223Z JUN 78
FM SECSTATE WASHDC
TO AMEMBASSY COTONOU PRIORITY
INFO AMEMBASSY ABIDJAN

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ABIDJAN ALSO FOR MATT HENNESSEY

E.O. 11652: N/A

TAGS: AFDF, EAID, EFIN

SUBJECT: POSSIBLE OPPOSITION TO AFDF PROJECT IN BENIN

REF: ABIDJAN 4731

1. AT MAY 30 NAC DELIBERATIONS ON PROJECT DESCRIBED REFTTEL,
THERE WAS STRONG SENTIMENT EXPRESSED IN FAVOR OF U.S.
OPPOSITION TO PROJECT. REASONS FOR THIS ARE AS FOLLOWS:

(A) ECONOMIC RATE OF RETURN (ERR) ON PROJECT IS ONLY SEVEN
PERCENT. THIS IS CONSIDERED EXTREMELY LOW FOR MULTILATERAL
DEVELOPMENT BANK (MDB) PROJECTS. IT HAS BEEN OUR POLICY IN
GENERAL TO URGE THE BANKS TO UNDERTAKE PROJECTS ONLY WHERE
THE ERR IS AT LEAST TEN PERCENT AND PREFERABLY HIGHER.
THE LOW ERR IN THIS PROJECT, WHICH SEEMS TO HAVE BEEN
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ACCURATELY CALCULATED AND BASED ON REALISTIC ASSUMPTIONS,
CALLS INTO QUESTION THE ECONOMIC VIABILITY OF INCREASED
EMPHASIS ON LIVESTOCK DEVELOPMENT AS A SOURCE OF FOREIGN
EXCHANGE.

(B) THE PROJECT'S EXECUTING AGENT, SODERA, IS REPORTED TO
BE UNDERSTAFFED AND POORLY STAFFED. FOR EXAMPLE, THERE IS

NO FINANCIAL CONTROL OFFICER IN SODERA AND MID-LEVEL
MANAGEMENT POSITIONS FOR THE MOST PART ARE UNOCCUPIED.

(C) THE FINANCIAL RATE OF RETURN (FRR) IS ONLY 5.3 PERCENT
(ALTHOUGH THE FRR IS LESS RELEVANT FROM A DEVELOPMENT
POINT OF VIEW THAN THE ERR). EVEN THE 5.3 PERCENT FIGURE
WOULD NOT BE ATTAINABLE IF THE GPRB WERE NOT ON-LENDING
THE PROCEEDS OF THE LOAN TO SODERA AT THE
NOMINAL INTEREST RATE OF TWO PERCENT. SODERA WILL
AMORTIZE THE LOAN OVER 25 YEARS, INCLUDING SEVEN YEARS
GRACE. THIS SIGNIFICANTLY NEGATIVE REAL INTEREST RATE
RUNS COUNTER TO OUR BELIEF, WHICH IS WELL KNOWN IN ALL
MDBS, THAT NEGATIVE REAL INTEREST RATES CAUSE A
DISTORTION IN ALLOCATION OF RESOURCES.

2. IF WE WERE TO OPPOSE THE LOAN, IT WOULD BE MADE
CLEAR THAT OUR OPPOSITION WAS STRICTLY ON TECHNICAL
GROUNDS. WE WOULD STATE OUR HOPE THAT THE AFDF WOULD
SEARCH OUT BETTER PROJECTS FOR FINANCING IN BENIN WHICH
WE COULD SUPPORT. U.S. OPPOSITION ALONE WOULD NOT PREVENT
AFDF APPROVAL OF THE PROJECT.

3. ANY COMMENTS YOU HAVE ON THE ABOVE WOULD BE GREATLY
APPRECIATED. PLEASE INFO ABIDJAN ON YOUR REPLY. FINAL
NAC ACTION IS SCHEDULED FOR EARLY NEXT WEEK. WE REGRET
THE TIGHT DEADLINE. VANCE
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Message Attributes

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Concepts: LIVESTOCK, PROGRAMS (PROJECTS)
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Disposition Approved on Date:
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